

Fiscal Estimate Narratives

DOR 1/12/2010

LRB Number	09-3916/2	Introduction Number	SB-439	Estimate Type	Original
Description Adopting Internal Revenue Code provisions related to individual retirement accounts and adopting provisions of the Heroes Earnings Assistance and Relief Tax Act of 2008 for state income and franchise tax purposes					

Assumptions Used in Arriving at Fiscal Estimate

This bill adopts provisions from two federal laws for Wisconsin purposes: section 512 of Public Law 109-222 related to the conversion of individual retirement accounts (IRAs) and several sections of Public Law 110-245 related to the tax treatment for members of the military.

Section 512 of Federal Public Law 109-222

Contributions to traditional IRAs are generally deductible for taxpayers but distributions are taxable. Conversely, contributions to Roth IRAs are not deductible, but distributions are not taxable. For 2009, taxpayers with incomes above \$120,000 (\$176,000 for married joint filers) may not contribute to Roth IRAs. Although taxpayers may contribute to traditional IRAs at any income level, the contributions are only deductible for filers with income below \$65,000 (\$109,000 for married joint filers). Taxpayers may also convert traditional IRAs to Roth IRAs by effectively taking a distribution from the traditional IRA, paying tax on the distribution, and then making a contribution to a Roth IRA.

Prior to Public Law 109-222, taxpayers could convert traditional IRAs to Roth IRAs only if their income did not exceed \$100,000. This law eliminates the \$100,000 limit on traditional IRA to Roth IRA conversions beginning in tax year 2010. This effectively eliminates the income ceiling for Roth IRA contributions insofar as a taxpayer who is otherwise prohibited from contributing to a Roth IRA can make a non-deductible contribution to a traditional IRA and then convert the amount to a Roth IRA.

For individuals who convert traditional IRAs to Roth IRAs in 2010, the law also allows them to pay tax on the converted amount over two years rather than paying the full amount in the year the conversion is made.

For Wisconsin purposes, under current law, a taxpayer who takes advantage of the federal law change to convert a traditional IRA to a Roth IRA may be liable for an early distribution penalty (on the traditional IRA) and an excess contribution penalty (on the Roth IRA). In the short term, assuming some taxpayers would convert their IRAs even in the absence of this bill, the bill would reduce revenue by eliminating those penalties. However, assuming some taxpayers would refrain from converting their IRAs in the absence of this bill, the bill would increase revenue to the extent that these taxpayers will report the distributions for the converted IRAs. By making Roth IRAs more available, this bill will reduce revenue in the long term because distributions from Roth IRAs are not taxable.

This portion of the bill is expected to have the following revenue effects for Wisconsin:
+\$1.0 million in FY 2011, +\$1.5 million in FY 2012, -\$1.7 million in FY 2013.

Public Law 110-245

The bill adopts the following provisions of Public Law 110-245:

1. Makes permanent the provision that allows members of the National Guard and the U.S. military reserves to make withdrawals from IRAs without penalty if they are called to active duty for a period that exceeds 179 days.
2. Allows reservists called to active duty to withdraw amounts from their health flexible spending accounts without penalty.
3. Allows individuals who receive a military death gratuity to contribute that amount to a Roth IRA without regard to the annual contribution and income limits that otherwise apply to Roth IRAs. For tax year 2009, annual contributions to a Roth IRA are limited to \$5,000 (\$6,000 if over the age of 50), and the annual

income limit is \$120,000 (\$176,000 for married joint filers).

4. Excludes from gross income any state or local bonus payment made to members of the U.S. military or their dependents, if the payment was made because of the member's service in a combat zone.

Adoption of these four provisions would have a minimal fiscal effect.

The bill excludes section 102 of Public Law 110-245. This provision permanently extends the election to include combat pay as earned income for purposes of claiming the earned income tax credit. Since the credit is phased in, depending upon the amount of earned income, the inclusion of combat pay for certain taxpayers serves to increase their earned income tax credit.

The Wisconsin earned income tax credit is a percentage of the federal credit. By excluding this provision, taxpayers would be unable to include combat pay in order to increase their state earned income tax credit. Since this federal provision was effective beginning in tax year 2008, exclusion of the provision for state purposes would require taxpayers who elected to include combat pay for purposes of claiming the federal earned income tax credit in 2008 and 2009 to amend their 2008 and 2009 state tax returns in order to recompute their state earned income tax credit excluding combat pay. In future years, affected taxpayers would be required to recompute their federal earned income tax credit, excluding any combat pay as earned income for purposes of claiming the state earned income tax credit. This exclusion will result in a minimal annual revenue increase.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2009 Session

Detailed Estimate of Annual Fiscal Effect

☒ Original
 ☐ Updated
 ☐ Corrected
 ☐ Supplemental

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I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):	
II. Annualized Costs:	Annualized Fiscal Impact on funds from:
	Increased Costs Decreased Costs
A. State Costs by Category	
State Operations - Salaries and Fringes	\$
(FTE Position Changes)	
State Operations - Other Costs	
Local Assistance	
Aids to Individuals or Organizations	
TOTAL State Costs by Category	\$
B. State Costs by Source of Funds	
GPR	
FED	
PRO/PRS	
SEG/SEG-S	
III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)	
	Increased Rev Decreased Rev
GPR Taxes	\$
GPR Earned	
FED	
PRO/PRS	
SEG/SEG-S	
TOTAL State Revenues	\$
NET ANNUALIZED FISCAL IMPACT	
	State Local
NET CHANGE IN COSTS	\$
NET CHANGE IN REVENUE	\$See text.
Agency/Prepared By	Authorized Signature
DOR/ Rebecca Boldt (608) 266-6785	Rebecca Boldt (608) 266-6785
	Date
	1/12/2010

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Fiscal Effect State: <div style="display: flex; flex-wrap: wrap;"> <div style="width: 33%;"> <input type="checkbox"/> No State Fiscal Effect <input type="checkbox"/> Indeterminate <input type="checkbox"/> Increase Existing Appropriations <input type="checkbox"/> Decrease Existing Appropriations <input type="checkbox"/> Create New Appropriations </div> <div style="width: 33%;"> <input type="checkbox"/> Increase Existing Revenues <input checked="" type="checkbox"/> Decrease Existing Revenues </div> <div style="width: 33%;"> <input type="checkbox"/> Increase Costs - May be possible to absorb within agency's budget <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Decrease Costs </div> </div> Local: <div style="display: flex; flex-wrap: wrap;"> <div style="width: 33%;"> <input type="checkbox"/> No Local Government Costs <input type="checkbox"/> Indeterminate 1. <input type="checkbox"/> Increase Costs 3. <input type="checkbox"/> Increase Revenue <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory 2. <input type="checkbox"/> Decrease Costs 4. <input type="checkbox"/> Decrease Revenue <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory </div> <div style="width: 33%;"> 5. Types of Local Government Units Affected <div style="display: flex; flex-wrap: wrap;"> <div style="width: 33%;"> <input type="checkbox"/> Towns <input type="checkbox"/> Counties <input type="checkbox"/> School Districts </div> <div style="width: 33%;"> <input type="checkbox"/> Village <input type="checkbox"/> Others <input type="checkbox"/> WTCS Districts </div> <div style="width: 33%;"> <input type="checkbox"/> Cities </div> </div> </div> </div>		
Fund Sources Affected Affected Ch. 20 Appropriations <input checked="" type="checkbox"/> GPR <input type="checkbox"/> FED <input type="checkbox"/> PRO <input type="checkbox"/> PRS <input type="checkbox"/> SEG <input type="checkbox"/> SEGS		
Agency/Prepared By DOR/ Rebecca Boldt (608) 266-6785	Authorized Signature Rebecca Boldt (608) 266-6785	Date 1/12/2010

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(FTE Position Changes)		
State Operations - Other Costs		
Local Assistance		
Aids to Individuals or Organizations		
TOTAL State Costs by Category	\$	\$
B. State Costs by Source of Funds		
GPR		
FED		
PRO/PRS		
SEG/SEG-S		
III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)		
	Increased Rev	Decreased Rev
GPR Taxes	\$	\$
GPR Earned		
FED		
PRO/PRS		
SEG/SEG-S		
TOTAL State Revenues	\$	\$
NET ANNUALIZED FISCAL IMPACT		
	State	Local
NET CHANGE IN COSTS	\$	\$
NET CHANGE IN REVENUE	\$	\$
Agency/Prepared By	Authorized Signature	Date
DOR/ Rebecca Boldt (608) 266-6785	Rebecca Boldt (608) 266-6785	1/12/2010